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C O N F I D E N T I A L SECTION 01 OF 02 HONG KONG 000243

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STATE FOR EAP/CM

E.O. 12958: DECL: 02/05/2019
TAGS: [ECON](#) [EFIN](#) [HK](#) [CH](#)
SUBJECT: HONG KONG WANTS U.S. TO MAINTAIN LEADERSHIP ROLE
IN ECONOMIC RECOVERY AND FREE TRADE

REF: HONG KONG 211

Classified By: Consul General Joseph Donovan, reason
1.4 (b and d).

¶1. (C) Summary: Commerce and Economic Development Bureau Secretary Rita Lau told the Consul General on February 5 that Hong Kong is increasingly feeling the negative effects of the global economic and financial crisis. Hong Kong's exports decreased in the last quarter of 2008 and unemployment is rising. In response, Hong Kong is looking at small infrastructure projects that would provide an immediate boost in employment. She emphasized that Hong Kong wants to maintain close economic ties with the U.S. She expressed strong concern, however, with "Buy American" provisions in the House-approved stimulus package. She pointed out the pledge by leaders at the November Group of 20 summit to refrain from protectionist measures to recover from the financial crisis. The CG emphasized President Obama's public statement earlier this week, that he wanted "provisions of the stimulus package taken out that are going to be a violation of WTO agreements." End Summary.

¶2. (C) During a February 5 meeting with Commerce and Economic Bureau Secretary Rita Lau, the CG thanked Hong Kong for its cooperation on trade security issues, particularly the Secure Freight Initiative pilot project. While overall cooperation remains excellent between Hong Kong and the United States, the CG stated his disappointment that Hong Kong had not authorized the boarding of a Hong Kong-flagged ship transporting a high speed motor boat to Iran in violation of U.S. export control regulations (reftel).

¶3. (SBU) Lau also briefly touched on a number of areas where she is focusing her attention:

--In the last quarter of 2008, the financial/economic crisis began to affect the Hong Kong economy, particularly the export sector. Exports decreased in the 4th Quarter 2008, with more drops expected during the 1st Quarter of 2009.

--The economic slowdown will have an increasingly negative impact on Hong Kong employment. She noted that Hong Kong construction workers that had been working in Macau expanding the casino and hotel industries are beginning to be laid off and are returning to Hong Kong looking for work. The HKG already has 10 major infrastructure projects in various stages of planning/execution but is also looking at smaller projects that may provide more immediate employment.

--Increased importance in Hong Kong-Guangdong province/Guangzhou city coordination and interaction. Hong Kong maintains regular contact with and is encouraging Guangdong provincial authorities to grant Hong Kong enterprises operating in Guangdong status equal to local firms. She noted that mainland China's recently released Pearl River Delta Strategic Planning Statement, covering the period through 2020, includes Hong Kong and Macau for the

first time.

--In response to the financial/economic crisis, the HKG implemented a scheme to provide HKG-guaranteed loans to small and medium sized industries. Under this scheme, private banks approve loans to SME's on commercial terms and then the HKG guarantees 70% of the balance for eligible borrowers. Lau said that the program has been in effect for less than two months and has resulted in HKD 4 billion in loans (approx US\$510 million).

--The surprisingly strong uptick in retail and restaurant revenues over China's New Year holiday; both sectors registered 20% increases in sales Y-O-Y. She attributed the better-than-expected results to mainland tourists traveling to Hong Kong.

--Due to Hong Kong's experience with the Asian Financial Crisis in the late 1990's, it is better prepared to handle the current crisis. Lau stated that the HKG does not believe it necessary to implement any direct stimulus package that would transfer funds directly to Hong Kong Residents.

--Hong Kong wants to maintain close ties with the U.S. and promote free trade. She emphasized that the Closer Economic Partnership Agreement (CEPA) between mainland China and Hong Kong can be helpful to U.S. companies that establish operations in Hong Kong and then use the CEPA to enter the mainland market.

--The wine trade is expected to be a major growth area with the removal last year of all tax revenues. Hong Kong is

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positioning itself to be a major hub, with trade of wine up 170% Y-O-Y. The HKG is discussing with mainland authorities, including the Administration for Quality Supervision, Inspection and Quarantine (AQSIQ), procedures for Hong Kong imported wines to gain greater access to the mainland market.

--Green Agenda. Lau seemed particularly excited that DuPont agreed to start an Environmental Research and Development Center in Hong Kong's Science Park. She stated that this project provides a model for Hong Kong and Shenzhen to work together on environmental issues.

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